

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 NSCE-00 CIAE-00 DODE-00 PM-05  
H-01 INR-10 L-03 NSAE-00 PA-01 SP-02 SS-15  
ICA-11 SSO-00 ACDA-12 EB-08 INT-05 DOE-15 SOE-02  
OES-07 COME-00 TRSE-00 CEA-01 OMB-01 EPA-01 AID-05  
CEQ-01 SIL-01 LAB-04 /137 W  
-----012846 211842Z /40

R 211641Z JUN 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 3618  
INFO AMEMBASSY LONDON  
AMEMBASSY BRUSSELS  
AMEMBASSY BONN  
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 03 PARIS 19767

DEPARTMENT PASS AMBASSADOR HENRY OWEN, WHITE HOUSE,  
FROM W. W. ROSTOW

E.O. 11652: GDS  
TAGS: PGOV, EFIN  
SUBJECT: BONN SUMMIT

1. I HAVE NOW EXPLORED THE PROPOSITION FOR THE SUMMIT  
I DISCUSSED BRIEFLY WITH YOU AND JIM SCHLESINGER  
BEFORE LEAVING FOR EUROPE: IN LONDON, BELGIUM, AND  
PARIS. IT WAS CRYSTAL CLEAR TO ALL HANDS THAT I WAS  
IN NO SENSE SPEAKING FOR THE US GOVERNMENT.

2. AS YOU WILL RECALL THE PROPOSITION, IT WOULD  
REQUIRE THE HEADS OF GOVERNMENT TO:

A. DRAMATIZE THE URGENCY OF REDUCING OPEC  
IMPORTS, DESPITE THE BRIEF PRESENT REMISSION,  
BECAUSE OF THE LONG LEAD TIME FOR INVESTMENT IN  
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ENERGY PRODUCTION AND CONSERVATION.

B. DRAMATIZE THAT SUCH AN INTENSIFIED, COM-  
BINED EFFORT WOULD SUBSTANTIALLY CLOSE THE PRESENT  
OECD INVESTMENT GAP WHICH ACCOUNTS FOR LOW GROWTH  
RATES AND ABNORMALLY HIGH UNEMPLOYMENT.

C. DRAMATIZE THAT SUCH AN INTENSIFIED ENERGY EFFORT REQUIRED MORE SERIOUS EFFORTS TO CONTROL BY EQUITABLE COMMON AGREEMENT THE ELEMENT OF WAGE-PUSH INFLATION WHICH LARGELY ACCOUNTS FOR THE POWERFUL INFLATIONARY TREND IN MOST OECD COUNTRIES.

D. ASSERT THAT IN SUCH A SETTING, PROTECTIONIST TRADE MEASURES ARE UNNECESSARY AND SHOULD BE FORESWORN.

3. THE PROPOSITION WAS EXPLORED WITH PALLISER, LEVER, THE HEAD OF THE TUC IN LONDON; ASSORTED PROFESSORS AT LOUVAIN-LA-NEUVE, AND EEC OFFICIALS IN BELGIUM; CASANOVA, FROMENT-MEURICE, CLAPPIER, HABERER IN PARIS, AS WELL AS ASSORTED OECD OFFICIALS. ALSO KNIGHT AND SOME OF HIS ECONOMIST EDITORS IN LONDON. AMBASSADOR BREWSTER AND HARTMAN INFORMED. AMBASSADOR CHAMBERS CALLED BUT OUT OF TOWN.

4. THE ARGUMENT LINKING ENLARGED INVESTMENT IN ENERGY PRODUCTION AND CONSERVATION TO ACCELERATED GROWTH AND REDUCED UNEMPLOYMENT APPEARED TO BE NEW EVERYWHERE, EVEN AT THE INTERNATIONAL ENERGY AGENCY. A GOOD MANY COPIES OF MY PAPER "ENERGY, FULL EMPLOYMENT, AND REGIONAL DEVELOPMENT" REPRODUCED AND DISTRIBUTED. IT WAS ALSO JUDGED THAT THIS  
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LINKAGE STRENGTHENS THE CASE FOR MAKING THE REDUCTION OF OPEC IMPORTS AN APPROPRIATE CENTER-PIECE FOR THE SUMMIT.

5. FOUR MAJOR PROBLEMS WERE RAISED AND DISCUSSED AT LENGTH IN THESE CONVERSATIONS. FIRST, HOW DOES ONE DEAL WITH THOSE WHO ARGUE THAT SOMETHING WILL TURN UP BY WAY OF NEW OIL DISCOVERIES OR NEW TECHNOLOGIES BETWEEN NOW AND THE MID-1980'S OR THAT THE SAUDIS WILL EXPAND PRODUCTION CAPACITY ON A SUFFICIENT SCALE TO PROVIDE OECD THE NECESSARY OIL IMPORTS? SECOND, HOW DOES ONE DEAL WITH THE INCREASED DEMAND-PULL INFLATIONARY PRESSURE, ENLARGED ENERGY-RELATED INVESTMENT MIGHT INDUCE? THIRD, HOW DOES ONE DEAL WITH THE "GREEN PEOPLE" AND OTHER EXTREME ENVIRONMENTALISTS IN GERMANY AND ELSEWHERE? FOURTH, HOW LARGE ARE THE POTENTIALITIES FOR INCREASED ENERGY-RELATED INVESTMENT IN WESTERN EUROPE?

6. WITH RESPECT TO THE FIRST, ALL THOSE I TALKED WITH, WITHOUT EXCEPTION, TOOK THE VIEW THAT IT

WOULD BE GROSSLY IRRESPONSIBLE, GIVEN INVESTMENT  
LEAD TIMES, TO DRIFT ALONG HOPING THAT THE OPEC

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INT-05 DOE-15 SOE-02 OES-07 COME-00 TRSE-00 CEA-01  
OMB-01 EPA-01 AID-05 CEQ-01 SIL-01 LAB-04 CIAE-00  
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SP-02 SS-15 ICA-11 /137 W  
-----012917 211845Z /40

R 211641Z JUN 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 3619  
INFO AMEMBASSY LONDON  
AMEMBASSY BRUSSELS  
AMEMBASSY BONN  
USMISSION GENEVA

C O N F I D E N T I A L SECTION 02 OF 03 PARIS 19767

PRODUCTION CEILING AND OIL SHORTAGE WOULD NOT OCCUR  
IN THE 1980'S. TWO ARGUMENTS IN PARTICULAR EMERGED:  
THE VIRTUAL CERTAINTY THAT IN A YEAR OR SO THE FALL  
IN THE REAL PRICE OF IMPORTED OIL WOULD REVERSE WITH  
SIGNIFICANT DEPRESSING EFFECTS ON BALANCE OF  
PAYMENTS AND REAL INCOME; THE UNWISDOM OF COUNTING ON  
POLITICAL STABILITY AND A STEADY WESTERN ORIENTATION  
IN SAUDI ARABIA. FROMENT-MEURICE QUESTIONED ME HARD  
ON WHETHER THE US GOVERNMENT WOULD ACT MILITARILY IN  
CASE OF A POLITICAL OR MILITARY THREAT TO THE SAUDI  
ORIENTATION. I PLEADED TOTAL IGNORANCE OF THOUGHT  
IN WASHINGTON ON THIS MATTER AND ARGUED, SIMPLY,  
THAT THE DIFFICULTIES AND POSSIBLE CONSEQUENCES OF  
SUCH AN EVENTUALITY SIMPLY STRENGTHENED THE ALREADY  
ADEQUATE CASE FOR URGENT, FULL DEVELOPMENT OF US  
PRODUCTION AND CONSERVATION POSSIBILITIES.

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7. WITH RESPECT TO INFLATION, THE VIEW EMERGED, NOTABLY WITH FROMENT-MEURICE AND CLAPPIER, THAT THE WAGE-PUSH INFLATION ALREADY BUILT IN TO MOST OECD ECONOMIES IS NOW DANGEROUS AND CORROSIVE; THE ISSUE OF MORE EFFECTIVE INCOMES POLICIES WOULD, IN ANY CASE, HAVE TO BE FACED; AND A SUCCESSFUL EFFORT TO DRAMATIZE BOTH THE NEED FOR REDUCING OPEC IMPORTS AND THE EMPLOYMENT AND GROWTH EFFECTS OF HIGHER LEVELS OF ENERGY-RELATED INVESTMENT WERE THE OPTIMUM FORESEEABLE SETTING FOR TRYING TO NEGOTIATE MORE EFFECTIVE INCOMES POLICIES. THE ELEMENT OF NATIONAL PRIDE AND DESIRE TO SECURE AGAIN CONTROL OVER NATIONAL DESTINIES, WAS EMPHASIZED BY SEVERAL FRENCH COLLEAGUES. THEY WERE MUCH INTERESTED IN US LABOR, NAACP, NORTHEAST AND MID-WESTERN GOVERNORS' ATTITUDES TOWARD ENERGY-RELATED INVESTMENT OF WHICH I INFORMED THEM. ON THE OTHER HAND, THE HEAD OF THE TUC, WHOM I MET AT LEVER DINNER IN LONDON, SAID THAT MAJOR EDUCATIONAL JOB REQUIRED WITH BRITISH LABOR SINCE GOVERNMENT HAD NOT DONE EFFECTIVE JOB OF MAKING ENERGY SITUATION CLEAR. OTHERS ALSO REFERRED TO DIFFICULTY OF DRIVING HOME URGENCY OF TASK AMIDST SHORT-RUN GLUT AND DECLINING REAL PRICE FOR IMPORTED OIL. AS YOU KNOW LEVER, IN HIS OWN PHRASE, "OBSESSED" WITH NEED FOR ENLARGED INTERNATIONAL CREDIT FACILITIES, BUT RECOGNIZED FORCE OF ENERGY ARGUMENT.

8. AS FOR THE "GREEN PEOPLE", NO ONE HAD A DOGMATIC ANSWER EXCEPT THAT THEY WERE A POLITICAL MINORITY THAT WOULD HAVE TO BE FACED DOWN VIA COALITION OF ALL POLITICAL ELEMENTS THAT WISHED TO GET ON WITH THE JOB. I EMPHASIZED MY PERSONAL VIEW ABOUT THE UNITED STATES; CONFIDENTIAL

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NAMELY, THAT THE ISSUE WAS NOT THE DEGRADATION OF ENVIRONMENTAL STANDARDS BUT FINDING A CONSTITUTIONAL FORMULA FOR SETTling PROMPTLY AND DEFINITELY THE ENERGY-ENVIRONMENTAL TRADE-OFF.

9. WITH RESPECT TO ENERGY-RELATED INVESTMENT IN EUROPE REQUIRED TO MEET OECD TARGETS FOR REDUCED OPEC IMPORTS, ENLARGED PRODUCTION, INCREASED CONSERVATION, THERE ARE, SIMPLY, NO COHERENT ESTIMATES. I SUSPECT MY PAPER WILL HELP STIMULATE

THEM. THE GENERAL CONCLUSION, ON THE BASIS OF SPECULATION, WAS THAT THEY MIGHT BE A BIT LOWER THAN THE US; AND THAT THEY WOULD VARY BY COUNTRIES. THIS LED, IN BOTH LONDON AND PARIS TALKS, TO EMPHASIS ON ENLARGING EUROPEAN INVESTMENT FUND FOR ENERGY INVESTMENT INCLUDING ESPECIALLY THE POSSIBILITY OF INCREASED PROVISION OF GERMAN CAPITAL FOR ENERGY-RELATED PURPOSES. IT WAS ALSO NOTED THAT GERMAN RESISTANCE TO AN ACCELERATED EXPANSION OF THEIR ECONOMY MIGHT BE LESS IF SUCH EXPANSION WAS SET IN MOTION BY INCREASED ENERGY INVESTMENT RATHER THAN BY A MORE DIFFUSE STIMULUS TO INCOME.

10. I CONCLUDE FROM THIS LIMITED EXERCISE THAT THE PROPOSITION I EXPLORED IS LIKELY TO BE DIPLOMATICALLY VIABLE IF PRESIDENT CARTER WISHED: (I) TO PRESS HARD THIS SUMMER TO BRING INTO BEING AN EFFECTIVE NATIONAL ENERGY POLICY AND TO MOVE DECISIVELY TOWARDS A DECELERATION OF WAGE-PUSH INFLATION; (II) TO USE THE POTENTIALITIES OF THE SUMMIT TO STRENGTHEN HIS HAND POLITICALLY IN THE EFFORT. IF THE SUMMIT WERE TO SERVE ANY SUCH LARGE POLITICAL PURPOSE, ITS CONCLUSIONS WOULD, OF COURSE, HAVE TO BE PROJECTED OUT IN MORE EFFECTIVE TERMS

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H-01 INR-10 L-03 NSAE-00 PA-01 SP-02 SS-15  
ICA-11 SSO-00 ACDA-12 EB-08 INT-05 DOE-15 SOE-02  
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CEQ-01 SIL-01 LAB-04 /137 W  
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R 211641Z JUN 78  
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THAN BY A CONVENTIONAL COMMUNIQUE. IT MIGHT EVEN BE WORTH CONSIDERING ADDING TO THE DELEGATION, SAY, TWO KEY SENATORS, NOTABLY FOR ENERGY, PLUS A LEADING BUSINESSMAN PLUS A MAJOR LABOR LEADER. BUT I UNDERLINE AGAIN THE LIMITS OF MY CONTACTS INCLUDING THE IMPORTANT LIMITATION THAT I SAW NO GERMANS. I WOULD NOTE, FINALLY, TWO ANXIETIES THAT RECURRED SYSTEMATICALLY IN THESE CONVERSATIONS. FIRST, THE ANXIETY THAT THE CREDIBILITY OF SUMMITRY WILL BE SIGNIFICANTLY DEGRADED IF THE JULY OCCASION PRODUCES NO PALPABLY SERIOUS RESULT. ON THIS SCORE, ALL HANDS BUT ONE WERE EXCEEDINGLY GLOOMY ON THE BASIS OF THE IDEAS AND PAPERS GENERATED THUS FAR. THE EXCEPTION WAS FROMENT-MEURICE WHO THOUGHT THAT, DESPITE PRESENT INDICATIONS, THE COMING BRITISH ELECTION, GERMAN-US TENSIONS AND THE NEED TO EASE THEM, AND THE PRESSURE TO AVOID ANOTHER COSMETIC SUMMIT MIGHT  
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STILL YIELD A USEFUL RESULT. THE SECOND, MORE GENERAL STAND WAS THE PERVASIVE ANXIETY THAT THE WEST WAS HEADED FOR DEEP TROUBLE DUE TO THE FAILURE OF ITS POLITICAL PROCESS TO GET HOLD OF ENERGY OR TO DEAL WITH INFLATION BY MEANS OTHER THAN KEEPING IT FROM GETTING WORSE AT THE COST OF LOW GROWTH RATES AND HIGH UNEMPLOYMENT.  
HARTMAN

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## Message Attributes

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